Your Family Business *Matters*

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Doing what's right

Thankfully, few business owners will ever find themselves in the limelight that Conrad Black found himself in – or in the prison garb he's likely to don later this year. But, wittingly or not, more than a few involved in family-owned businesses will face ethical dilemmas that can have negative consequences for their business.

The types of ethical issues that come up in a family-owned business context often involve a family member engaging in behavior, like self-dealing, usurping a corporate opportunity, or taking advantage of questionable perks, that is detrimental to the business or the other shareholders.

What to look out for

An article like this couldn't possible set out all the different types of situations someone involved in a family-owned business could face. But, what we can offer is suggestions for ways of analyzing an issue to ensure that you consider the ethical implications before making a decision that could be seen as unethical.

There are a number of very general questions you should ask yourself whenever you're presented with an opportunity, or whenever you plan on using money from the business on something that you'll derive some personal benefit from. One key question to consider is whether an opportunity has come your way, directly or indirectly, as a result of your work, role, or activities related to the family business. If so, you should always consider whether the family business is really who should be the primary beneficiary. Indeed, you should probably ask yourself whether you alone should even be making that determination.

A good rule of thumb is: when in doubt, raise the issue with other stakeholders. (Even when you're not in doubt, it's a good idea to seek their input and their approval.) For example, if a member of the family who oversees the business' real estate hears that a property is for sale and he's interested in buying it on his own account, prior to doing so he should probably disclose to others in the family business that the property is for sale and that he's interested in purchasing it.

Being on the same page

Short of obviously egregious behavior, like lavish expenses on things that may have a significant personal benefit and little or no business purpose, as Mike Cohn points out in, "Avoiding scandal:

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Comments and suggestions should be addressed to Bruce Ball, National Office by Fax: **(416) 367-3912** or E-mail to familybiz@bdo.ca. We invite you to visit our web site at www.bdo.ca to find out more about our firm and the offices near you. Or call us at **1-800-805-9544**.

Good intentions won't do it," Family Business Magazine (Autumn 2002), in family-owned business contexts difficulty often arises because different family members may operate under different standards.

For example, someone from an older generation who has been involved in the family business for a long time may feel they sacrificed in the early or lean years and now they might feel and act as though they are entitled to certain perks – perks that others may see as excessive. Or some family members who are inactive in the business may fail to recognize or understand the wider impact an action or decision they may make may have on the business.

Formalizing an ethical policy

Having a formal ethics policy is one way to minimize the chances of different family members operating under different standards. Though crafting such a policy may seem daunting, in the family-owned business context it is often easier because there is usually a shared foundation of values on which to draw. The task and work involved in formalizing the policy is a good opportunity to bring family members together and engage them in ways that will strengthen the family bond.

In terms of what to include in such a policy, it's useful to remember that an ethics policy is not the same as a "mission statement", which generally describes business practices. An ethics policy could contain a list of do's and don'ts – things like requiring full disclosure of business and financial information, and the requirement that family members who are considered employed full-time by the business are expected to actually work full time on matters related to the business. As well, the policy could include guidelines regarding family members' access to perks, and a system of checks and balances related to such expenses. But money-related issues are not the only ethical issues you should consider addressing in the policy. Issues related to exerting power for personal benefit are also worth including.

As you develop your ethical policy, you should also establish a process that allows family members and employees to present and discuss questions, and questionable practices. You might consider instituting a review process and issuing guidelines regarding sanctions for ethical breaches.

Open communication is essential

As with any corporate policy, for it to gain acceptance there must be open communication, both about the policy itself and about how it might apply in a given situation. Indeed, in most situations, family members want to do the right thing, but they simply may not be able to see the ultimate impact on others or on the business. For example, if a family member is presented with an opportunity and she is unsure about whether she should act on it alone or whether to present it to the other family members involved in the business, if she feels there's an open, supportive environment in which to discuss the matter, she's far more likely to raise the issue.

No one likes confrontation, but…

Addressing ethical problems can be tricky in the best of circumstances and in family-owned business situations, the added dimensions of family relations often adds a layer of complexity. Regardless, often the best approach is to deal with the matter head-on, as little good comes from letting problems fester. Of course, a tactful, measured approach is called for, with everyone involved consciously doing their best to separate business matters from personal and family matters.

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Poor performers can be detrimental to your business in more ways than one. They can be a drag on productivity because they're not pulling their weight and they can jeopardize the commitment of other employees who become discouraged or resentful at having to pick up the slack. Dealing with poor performers can be stressful and time consuming, but so can finding new people to replace good workers who left out of frustration.

Grooming a leadership team

Most family businesses get off the ground based on the hard work of one person: the founder. In the early years the founder oversees every aspect of the business, often doing much of the work alone. As the business grows, others may come on board in various roles, but the founder usually remains the business' leader.

When it comes time to start thinking about succession planning, in family businesses structured on a single founder/business leader model, the founder often looks to the next generation with a view toward identifying a likely successor. Indeed, the far-sighted founder – one who realizes that succession is a process, not an anointing – may even start grooming an individual (for example, a child) as his or her likely successor.

Putting all your eggs in one basket

Identifying just one successor is tantamount to putting all your eggs in one basket, which is a risky strategy most business owners avoid in other aspects of running their business. For example, most businesses try hard to avoid relying on one customer for fear that if they lose that customer, their business could be devastated. And yet, when it comes to succession planning, many overlook the risks of focusing on one likely candidate. (After all, that person ultimately may not want to take over, or he or she may not be ready to do so when the time comes.) Regardless of where you might be in the family business succession planning process, consider grooming a team of potential leaders – the reasons for doing so are many.

Warning signs of discord

The idea that a stitch in time saves nine is equally appropriate advice when it comes to dealing with disputes that arise in family-owned business. To take swift action, early detection of problems is key.

Here are some behaviors that may be early warning signs of discontent and growing discord among family members involved in the family business:

- family members claming up or withdrawing from regular discourse;
- family member starting to sidestep normal communication channels;
- family members forming alliances or cliques;
- tension at non-business family gatherings; or
- an increasingly active rumour mill.

If you observe any of these behaviors, take time to investigate what might be brewing and, if there is a problem, take steps to remedy the problem.

One person's skills may no longer be sufficient

An important reason for grooming a number of people for leadership positions is the fact that, though the family business grew and prospered under the leadership of an individual, taking the business to the next level may require skills and expertise that are beyond those of an individual. This idea is sometimes difficult for founders to accept. One possible way of contemplating the truth in this idea is to focus on the where you'd like to see the business in five years, rather than focusing on who you think might take over the business.

For some, such an exercise involves almost a paradigm shift – movement away from thinking about what made the business successful in the past (which was probably closely related to the founder's skills) and about how to sustain that momentum, to thinking about ways the business might grow and evolve if other skills and experiences were brought to bear. In developing a longer-term business strategy, you should also consider the skills and personal attributes needed to implement the strategy. Once you come up with such a list, chances are you'll realize that a single individual likely will not have all the skills, but a leadership team will.

Then start identifying individuals who might form tomorrow's leadership team. It's important to remember that the goal in choosing people for the leadership-team-in-training is not to create clones. Individual development plans should be crafted for each person based on their own strengths and weaknesses, and a formal review process should be established so each person's progress can be evaluated.

Regardless of the number of family members you may have for

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Titles matter in family-owned businesses as much as in large corporations. Titles help outsiders understand the company hierarchy and who may have decision-making authority. To people inside the business, titles can reflect particular skills, expertise, or responsibilities and can be important for helping employees feel valued.

the team, including non-family members is a good idea because doing so gives you more options. As you watch the leadership team develop, you might realize that the best person to run the business is someone on the team but not in the family.

Other benefits of a team are that team members will learn from each other and the strength of the group will compensate for any weaknesses of individual members. And, as the talents of different leader-trainees become clearer and more defined, you may find that the diverse talents at hand open up additional avenues and opportunities that the business could not have otherwise tapped into.

Conclusion

By grooming a number of potential leaders you're doing more than just hedging your bet that you'll end up with a qualified, interested successor. While it's possible that a single leader may emerge, by developing a team of potential leaders, it's also possible that you may realize that the business is better positioned for success with the adoption of a management team comprised of tested – and talented – folks that you already know and that already function as a team.

Q&A – When does majority not rule?

Q. Our family has been in business for over 65 years and the number of owners has grown (we're into the third generation) to the point that it has become clear that we should institute a shareholder agreement. We've been discussing the various terms and have reached agreement on most issues. One thing that's turning out to be a sticking point, however, is the issue of what percentage of owners is needed to carry a decision to sell the business. Any thoughts on the matter?

A. It's great to hear from a family business that's in its third generation – you must be doing many things right. Indeed, the fact that you're working on a shareholders' agreement shows a level of sophistication and dedication to looking after the business and the family. So, now to your question. In family businesses with multiple owners, it's not unusual to make most decisions based on the vote of a majority of shareholders. A "majority-rules" rule makes sense in most instances because everyone feels their opinion counts and ultimately it fosters decision rather than indecision. An underlying reason this approach works for most decisions is because those who are frustrated can take comfort in the fact that there will be other decisions in the future that they may "win" on. In other words, if you know there will be other issues to decide on later, it's much easier to take a "you win some, you lose some" attitude. Also, so long as you're still in business, if a decision ends up being bad you can always try fixing it.

But, the decision of whether to sell is unlike any other decision for a number of reasons – not the least of which is that the consequences are final. Because the nature of the decision to sell is so different, there's a strong argument for the view that the decision must be unanimous. Regardless of how strong the business case is for doing so, selling the family business is a tremendously emotional decision for most, whether they admit it or not. Anything less than a unanimous decision to sell risks tearing the family apart.

Looking at it from another angle, any hint of discontent among family members could have a chilling effect on potential buyers or could be used by them to try to drive the price down. Neither of these alternatives would be welcome. And, keep in mind that just because anonymity is required, that doesn't mean the decision to sell will never be made, or cannot be discussed. If the issue comes up – as it likely will – everyone will know that the hurdle is high and this should motivate people to work toward resolving any differences.

However difficult doing so may be, your family will be better off for having worked through it. And, if the decision ends up being not to sell at that time, don't worry – chances are the opportunity to do so will come up again, and maybe at that point everyone will be emotionally ready to let go.

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Involvement with the family business doesn't necessarily mean involvement in the day-to-day running of it. Membership on the board is a great alternative for those who have expertise or experience to contribute, but who do not want hands-on involvement.

Celebrating milestones

When was the last time your business marked, much less celebrated, a milestone? Many businesses miss the opportunity to mark significant events because owners often get so caught up in the running of the business that they fail to step back and acknowledge their successes, accomplishments, or achievements. Making note of special business occasions or milestones is important because it requires stepping back and taking a moment to take stock of where you've come from and what you've achieved.

What might be celebrated?

What type of milestone might a business celebrate? Well, it could be anything from winning an award for leadership, or recognition by peers or associations for being the best in a particular field, to an award for innovation. Or, it could be something a bit more personal to the business, like an important anniversary (which, given the failure rate of new businesses, definitely includes your first anniversary!) or the achievement of some business goal you had set (like reaching a significant sales

Compensating for lack of non-family business experience

Consultants often recommend that before joining a family business, family members should have some outside work experience. Though that advice has merit – outside experience can help instill confidence and exposure to different ways of doing things – the reality is that often family members do not have (or take) the opportunity to work elsewhere before joining the family business. If that's the case with you, take heart, there are things you can do to compensate. Here are some ideas:

Join a peer group – colleges, business advisory firms, business associations, chambers of commerce, etc., often run groups or forums for family-owned businesses. Such groups provide information and valuable perspectives on many aspects of business, not to mention they can be an outlet for discussing problems or concerns.

Take courses – regardless of whether you have a degree, or what it might be in, take some business courses. Though finding time for classes is difficult, people in business usually find that they learn a great deal from the courses because they are often able to test business theories first hand.

Find a mentor – a mentor can be an excellent source for objective advice and counsel. Of course, finding one can be challenging and the fit has to be comfortable. When trying to find a mentor, consider board members, executives from other businesses, etc.

Bond with employees – for most businesses, employees are the most valuable asset. Take time to get to know your employees and the work they perform. By doing so, you'll learn about the business and you'll build rapport that will help reinforce the commitment employees have to the business and that you have to them.

Learn the business – there is no better way to gain confidence and insight into the family business than to spend time working in it. Though you may have started in one role – or may see yourself ending up in one role – rotating through every area of the business will provide you with insights that you would not be able to gain any other way.

goal or expansion of the business in a particular area).

Some business owners seem reluctant to publicly mark celebrations because they see doing so as little more than self-promotion. But, the reality is that in most cases, achievement of a milestone is the result of the efforts of many, including employees, clients and customers, and even local residents or officials so why not look at the celebration as a way of recognizing them!

How to mark the occasion

Two factors will likely weigh heaviest when considering how you might mark an occasion: the nature of what you're celebrating and your budget. The nature of the occasion may, to a large extent, drive the way you mark it. For example, if a trade association is honouring your achievements it might do so at a banquet, in which case you could be asked to give some sort of acceptance speech. But keep in mind that there's no reason you can't celebrate the same milestone in a few ways.

There are a myriad of things you can do to celebrate a business milestone. For example, you could place an ad in the paper or host a social event, like a reception or picnic, for employees, customers, or the community. As part of the celebration you could look for ways of giving back to the community, such as making a special donation or sponsorship in honour of the milestone, or to thank the community for its support. Or you could do some sort of customer appreciation event. (For example, if you're celebrating 25 years in business, on your anniversary date you might offer a one day promotion where everything is priced at what you charged 25 years ago.) The key is to be creative and do something that will be both meaningful and memorable.

When it comes to matters of budget, thinking in terms of what single event will get you the proverbial "most bang for your buck" is not necessarily the best idea. A series of smaller, or less expensive, activities may be more manageable in terms of cost, and may be a more effective way of getting the news out more widely.

Another way of keeping costs down but getting the word out is to try engaging local media to help spread the news about your achievements.

Conclusion

If you don't mark or celebrate your business' successes, you're missing the opportunity to sit back and appreciate where you are and where you've come from, not to mention that without doing so others could feel you don't recognize their contribution to your business's success. So come on – don't be modest – celebrate!

Tidbit

Mergers and acquisitions can exponentially expand a business. But, they are like a marriage: the key to their success is finding the right partner and then working to nurture the relationship.

Tidbit

Some family businesses end up owning a fair bit of real estate, though they're not in the real estate business. If you're finding that the time you spend managing real estate is taking you away from your core business, consider whether a sale-lease back option, or just a lease, might make more sense.